

**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
HANCOCK COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Hancock County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Hancock County, Kentucky.

Financial Condition:

The Hancock County Fiscal Court had total receipts of \$8,016,020 and disbursements of \$7,786,670 in fiscal year 2014. This resulted in a total ending fund balance of \$3,773,946, which is an increase of \$408,788 from the prior year.

Report Comments:

- | | |
|----------|---|
| 2014-001 | Internal Controls Over Disbursements/Credit Card Transactions Should Be Strengthened |
| 2014-002 | The Fiscal Court Should Advertise And Properly Award Bids And Ensure They Are Paying The Correct Amount Per Bid Award |
| 2014-003 | The Fiscal Court Has A Lack Of Segregation Of Duties Over Cash, Receipts, And Payroll |
| 2014-004 | The Payroll Revolving Account Should Be Properly Reconciled And Zero Out After Considering All Payroll Liabilities |
| 2014-005 | The EOC Director Should Reconcile Monthly Ambulance Runs Billed By The Service Provider |
| 2014-006 | The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts |
| 2014-007 | Overtime Was Not Properly Paid To An Emergency Management Technician |

Deposits:

The Fiscal Court's deposits as of August 31, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$368,834

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Hancock County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by Hancock County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Hancock County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Hancock County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Hancock County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of Hancock County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 Internal Controls Over Disbursements/Credit Card Transactions Should Be Strengthened
- 2014-002 The Fiscal Court Should Advertise And Properly Award Bids And Ensure They Are Paying The Correct Amount Per Bid Award
- 2014-003 The Fiscal Court Has A Lack Of Segregation Of Duties Over Cash, Receipts, And Payroll
- 2014-004 The Payroll Revolving Account Should Be Properly Reconciled And Zero Out After Considering All Payroll Liabilities
- 2014-005 The EOC Director Should Reconcile Monthly Ambulance Runs Billed By The Service Provider
- 2014-006 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts
- 2014-007 Overtime Was Not Properly Paid To An Emergency Management Technician

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon
Auditor of Public Accounts

October 28, 2015

HANCOCK COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Jack McCaslin	County Judge/Executive
John Gray	Magistrate
James Hodskins	Magistrate
Frankin Estes	Magistrate
Larry Sosh	Magistrate

Other Elected Officials:

Paul Madden, Jr.	County Attorney
Roger Estes	Jailer
Trina Ogle	County Clerk
Noel Quinn	Circuit Court Clerk
Ralph Dale Bozarth	Sheriff
Michael Powers	Property Valuation Administrator
David Gibson	Coroner

Appointed Personnel:

Melissa Baker	County Treasurer
Stacy Bozarth	Occupational Tax Administrator

HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 3,937,032	\$	\$
Excess Fees	164,434		
Licenses and Permits	19,522		
Intergovernmental	488,599	1,391,536	85,061
Charges for Services	266,097		29,528
Miscellaneous	307,123	180,139	
Interest	2,121	2,178	
Total Receipts	<u>5,184,928</u>	<u>1,573,853</u>	<u>114,589</u>
DISBURSEMENTS			
General Government	1,446,024		
Protection to Persons and Property	1,064,101		192,154
General Health and Sanitation	225,143		
Social Services	228,399		
Recreation and Culture	245,094		
Roads		1,584,455	
Transportation Facilities and Services	8,026		
Airport	8,870		
Debt Service	21,488	158,429	
Administration	1,381,999	215,847	14,846
Total Disbursements	<u>4,629,144</u>	<u>1,958,731</u>	<u>207,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>555,784</u>	<u>(384,878)</u>	<u>(92,411)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money	60,000	128,853	
Change in Payroll Revolving Account	(9,415)		
Transfers From Other Funds		128,000	95,000
Transfers To Other Funds	(223,000)		
Total Other Adjustments to Cash (Uses)	<u>(172,415)</u>	<u>256,853</u>	<u>95,000</u>
Net Change in Fund Balance	383,369	(128,025)	2,589
Fund Balance - Beginning (Restated)	2,380,316	304,330	6,459
Fund Balance - Ending	<u>\$ 2,763,685</u>	<u>\$ 176,305</u>	<u>\$ 9,048</u>
Composition of Fund Balance			
Bank Balance	\$ 2,770,866	\$ 176,401	\$ 9,152
Plus: Deposits In Transit	21		
Less: Outstanding Checks	(7,202)	(96)	(104)
Fund Balance - Ending	<u>\$ 2,763,685</u>	<u>\$ 176,305</u>	<u>\$ 9,048</u>

The accompanying notes are an integral part of the financial statement.

HANCOCK COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

<u>Budgeted Funds</u>		<u>Unbudgeted Fund</u>	
<u>Local</u>		<u>Public</u>	
<u>Government</u>		<u>Improvement</u>	
<u>Economic</u>		<u>Corporation</u>	
<u>Assistance</u>	<u>E911</u>	<u>Fund</u>	<u>Total</u>
<u>Fund</u>	<u>Fund</u>		<u>Funds</u>
\$	\$ 30,993	\$	\$ 3,968,025
			164,434
			19,522
151,662	106,700	852,328	3,075,886
			295,625
			487,262
544	422	1	5,266
152,206	138,115	852,329	8,016,020
			1,446,024
1,049	120,940		1,378,244
1,080			226,223
13,050			241,449
3,347			248,441
			1,584,455
			8,026
			8,870
		852,329	1,032,246
			1,612,692
18,526	120,940	852,329	7,786,670
133,680	17,175		229,350
			188,853
			(9,415)
			223,000
			(223,000)
			179,438
133,680	17,175		408,788
355,403	318,533	117	3,365,158
\$ 489,083	\$ 335,708	\$ 117	\$ 3,773,946
\$ 489,120	\$ 337,195	\$ 117	\$ 3,782,851
			21
(37)	(1,487)		(8,926)
\$ 489,083	\$ 335,708	\$ 117	\$ 3,773,946

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Hancock County includes all budgeted and unbudgeted funds under the control of the Hancock County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the Fiscal Court in the acquisition and financing of any public project which may be undertaken by the Fiscal Court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the Fiscal Court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The Fiscal Court reports the following budgeted funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

E911 - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Unbudgeted Fund

The Fiscal Court reports the following unbudgeted fund:

Public Improvement Corporation Fund - The primary purpose of this fund is to account for the debt service requirements of lease revenue bonds that were issued to fund the construction of the Judicial Center. The Department for Local Government does not require the Fiscal Court to report or budget this fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Improvement Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Hancock County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Hancock County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 2. Deposits

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Fiscal Court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$368,834

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Total Transfers In
Road Fund	\$ 128,000	\$ 128,000
Jail Fund	95,000	95,000
Total Transfers Out	<u>\$ 223,000</u>	<u>\$ 223,000</u>

Reason for transfers:

To move resources from the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Asset Held For Resale

Asset held for resale activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Asset Held for Resale:				
Vehicle	\$ 124,872	\$ 128,853	\$ 124,872	\$ 128,853
Total Asset Held for Resale	<u>\$ 124,872</u>	<u>\$ 128,853</u>	<u>\$ 124,872</u>	<u>\$ 128,853</u>

Note 5. Long-term Debt

A. Hancock County Public Improvement Corporation Lease Revenue Bonds (Judicial Center Project), Series 2009

Hancock County Fiscal Court issued Lease Revenue Bonds (Judicial Center Project), Series 2009 for \$11,625,000 for the purpose of acquiring, construction, and furnishing a new Judicial Center. The bonds require yearly principal payments due August 1 and interest payments due February 1 and August 1 with a variable interest rate. The bonds will mature on August 1, 2028. As of June 30, 2014, the principal balance was \$9,690,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 510,000	\$ 340,466
2016	520,000	328,229
2017	535,000	314,373
2018	550,000	298,766
2019	570,000	281,610
2020-2024	3,160,000	1,086,999
2025-2029	<u>3,845,000</u>	<u>405,297</u>
Totals	<u>\$ 9,690,000</u>	<u>\$ 3,055,740</u>

B. Ambulance

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of an ambulance. Terms of the agreement stipulate a five year repayment schedule with a variable interest rate. The Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2014, the principal balance was \$18,724. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 18,724	\$ 457
Totals	<u>\$ 18,724</u>	<u>\$ 457</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

C. Dump Truck

Hancock County Fiscal Court borrowed \$100,000 from Green River Area Development District for the purchase of a dump truck on February 9, 2011. Terms of the agreement stipulate a four year repayment schedule with a 2.44% interest rate. The Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2014, the principal balance was \$24,361. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 24,361	\$ 594
Totals	<u>\$ 24,361</u>	<u>\$ 594</u>

D. Mack Dump Truck

Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a Mack dump truck in November 2012. The lease is for \$124,872 at an interest rate of 4.55% per annum. Interest payments are due by the 20th of each month. As of June 30, 2014, the principal balance was \$0.

E. Ambulance

Hancock County Fiscal Court borrowed \$60,000 from Green River Area Development District for the purchase of an ambulance effective December 26, 2013. Terms of the agreement stipulate a four year repayment schedule with an interest rate of 2.44%. As of June 30, 2014, the principal balance was \$60,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 15,352	\$ 574
2016	14,837	1,089
2017	15,199	727
2018	<u>14,612</u>	<u>357</u>
Totals	<u>\$ 60,000</u>	<u>\$ 2,747</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

F. Mack Dump Truck

Hancock County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to finance the purchase of a Mack dump truck on October 3, 2013. The lease is for \$128,853 at a variable interest rate. Interest payments are due by the 20th of each month. As of June 30, 2014, the principal balance was \$128,853. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 128,853	\$ 4,879
Totals	<u>\$ 128,853</u>	<u>\$ 4,879</u>

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 10,190,000	\$	\$ 500,000	\$ 9,690,000	\$ 510,000
Financing Obligations	213,818	188,853	170,733	231,938	187,290
Total Long-term Debt	<u>\$ 10,403,818</u>	<u>\$ 188,853</u>	<u>\$ 670,733</u>	<u>\$ 9,921,938</u>	<u>\$ 697,290</u>

Note 6. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$385,739, FY 2013 was \$417,089, and FY 2014 was \$420,473.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Hancock County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 8. Health Reimbursement Account/Flexible Spending Account

The Hancock County Fiscal Court established a health reimbursement account to provide employees an additional health benefit. The County has contracted with BMS, LLC, a third-party administrator, to administer the plan. The plan provides \$3,000 each year to go towards the employee's deductible. Employees' must pay \$2,000 of their deductible first and once this has been done they can request reimbursement up to the \$3,000. In order to receive the reimbursement of \$3,000 the employee must provide the County Treasurer with documentation that the \$2,000 has been paid and sign a form requesting reimbursement.

Note 9. Insurance

For the fiscal year ended June 30, 2014, Hancock County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Landfill Closure and Postclosure Costs

The Hancock County Landfill was closed on June 20, 1995. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated final date for maintenance and monitoring in 2028. Estimated postclosure care costs total \$299,880 as of June 30, 2014, or \$21,420 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

Note 11. Payroll Revolving Account

The reconciled balance of the Payroll Revolving Account as of June 30, 2013 was \$36,379. The reconciled balance as of June 30, 2014 was \$26,964. Therefore, the net change of (\$9,415) will be included in the General Fund for financial reporting purposes.

Note 12. Prior Period Adjustment

	<u>General Fund</u>
Ending Cash Balance Prior Year	\$ 2,376,641
Adjustments:	
Prior Year Voided Checks	<u>3,675</u>
Beginning Cash Balance Restated	<u>\$ 2,380,316</u>

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HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 3,032,423	\$ 3,065,423	\$ 3,937,032	\$ 871,609
In Lieu Tax Payments	11,000	11,000		(11,000)
Excess Fees	129,300	164,300	164,434	134
Licenses and Permits	15,284	15,284	19,522	4,238
Intergovernmental	553,659	750,611	488,599	(262,012)
Charges for Services	302,750	302,750	266,097	(36,653)
Miscellaneous	272,930	291,218	307,123	15,905
Interest	4,550	4,550	2,121	(2,429)
Total Receipts	4,321,896	4,605,136	5,184,928	579,792
DISBURSEMENTS				
General Government	1,520,585	1,589,249	1,446,024	143,225
Protection to Persons and Property	984,761	1,146,655	1,064,101	82,554
General Health and Sanitation	189,060	258,018	225,143	32,875
Social Services	245,024	253,821	228,399	25,422
Recreation and Culture	346,429	363,794	245,094	118,700
Transportation Facilities and Services		8,026	8,026	
Airport	7,500	8,870	8,870	
Debt Service			21,488	(21,488)
Administration	2,028,538	2,676,704	1,381,999	1,294,705
Total Disbursements	5,321,897	6,305,137	4,629,144	1,675,993
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,000,001)	(1,700,001)	555,784	2,255,785
Other Adjustments to Cash (Uses)				
Borrowed Money			60,000	60,000
Transfers To Other Funds	(601,303)	(601,303)	(223,000)	378,303
Total Other Adjustments to Cash (Uses)	(601,303)	(601,303)	(163,000)	438,303
Net Change in Fund Balance	(1,601,304)	(2,301,304)	392,784	2,694,088
Fund Balance Beginning (Restated)	1,601,304	2,301,304	2,343,937	42,633
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,736,721	\$ 2,736,721

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,237,055	\$ 1,480,055	\$ 1,391,536	\$ (88,519)
Miscellaneous	143,100	248,100	180,139	(67,961)
Interest	1,500	1,500	2,178	678
Total Receipts	1,381,655	1,729,655	1,573,853	(155,802)
DISBURSEMENTS				
Roads	1,405,768	1,796,069	1,584,455	211,614
Debt Service	146,544	158,429	158,429	
Administration	409,646	509,460	215,847	293,613
Total Disbursements	1,961,958	2,463,958	1,958,731	505,227
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(580,303)	(734,303)	(384,878)	349,425
Other Adjustments to Cash (Uses)				
Borrowed Money			128,853	128,853
Transfers From Other Funds	430,303	430,303	128,000	(302,303)
Total Other Adjustments to Cash (Uses)	430,303	430,303	256,853	(173,450)
Net Change in Fund Balance	(150,000)	(304,000)	(128,025)	175,975
Fund Balance Beginning	150,000	304,000	304,330	330
Fund Balance - Ending	\$ 0	\$ 0	\$ 176,305	\$ 176,305

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 87,000	\$ 88,700	\$ 85,061	\$ (3,639)
Charges for Services	17,000	24,800	29,528	4,728
Miscellaneous	1,000	1,000		(1,000)
Total Receipts	105,000	114,500	114,589	89
DISBURSEMENTS				
Protection to Persons and Property	244,800	247,331	192,154	55,177
Administration	34,200	44,569	14,846	29,723
Total Disbursements	279,000	291,900	207,000	84,900
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(174,000)	(177,400)	(92,411)	84,989
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	171,000	171,000	95,000	(76,000)
Total Other Adjustments to Cash (Uses)	171,000	171,000	95,000	(76,000)
Net Change in Fund Balance	(3,000)	(6,400)	2,589	8,989
Fund Balance Beginning	3,000	6,400	6,459	59
Fund Balance - Ending	\$ 0	\$ 0	\$ 9,048	\$ 9,048

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 140,600	\$ 140,600	\$ 151,662	\$ 11,062
Miscellaneous	100	100		(100)
Interest	1,000	1,000	544	(456)
Total Receipts	141,700	141,700	152,206	10,506
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,000	1,049	3,951
General Health and Sanitation	3,300	3,300	1,080	2,220
Social Services	21,500	21,500	13,050	8,450
Recreation and Culture	3,750	3,750	3,347	403
Roads	338,150	338,150		338,150
Total Disbursements	371,700	371,700	18,526	353,174
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(230,000)	(230,000)	133,680	363,680
Net Change in Fund Balance	(230,000)	(230,000)	133,680	363,680
Fund Balance Beginning	230,000	230,000	355,403	125,403
Fund Balance - Ending	\$ 0	\$ 0	\$ 489,083	\$ 489,083

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

E911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,700	\$ 26,700	\$ 30,993	\$ 4,293
Intergovernmental	69,500	83,500	106,700	23,200
Interest	500	500	422	(78)
Total Receipts	96,700	110,700	138,115	27,415
DISBURSEMENTS				
Protection to Persons and Property	110,800	130,740	120,940	9,800
Administration	236,100	298,160		298,160
Total Disbursements	346,900	428,900	120,940	307,960
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(250,200)	(318,200)	17,175	335,375
Net Change in Fund Balance	(250,200)	(318,200)	17,175	335,375
Fund Balance Beginning	250,200	318,200	318,533	333
Fund Balance - Ending	\$ 0	\$ 0	\$ 335,708	\$ 335,708

HANCOCK COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation Of The Budgetary Comparison Schedules To The Statement Of Receipts, Disbursements, And Changes In Cash Balances And Cash Equivalents

Reconciliation of the General Fund

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ (163,000)
To adjust for change in Payroll Account	<u>(9,415)</u>
Total Other Adjustments to Cash(Uses)-Regulatory Basis	<u>\$ (172,415)</u>
Ending Balances-Budgetary Basis	\$ 2,736,721
To adjust for Payroll Account	<u>26,964</u>
Total Ending Balance-Regulatory Basis	<u>\$ 2,763,685</u>

Note 3. Disbursements In Excess Of Budgeted Appropriations

Debt Service disbursements in the General Fund exceeded budgeted appropriations by \$21,488.

HANCOCK COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

HANCOCK COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The Fiscal Court reports the following schedule of capital assets:

	Beginning Balance (Restated)	Additions	Deletions	Ending Balance
Land	\$ 878,102	\$	\$	\$ 878,102
Buildings	14,898,660			14,898,660
Vehicles	2,447,326	131,491	75,400	2,503,417
Other Equipment	2,202,166	205,560		2,407,726
Infrastructure	2,922,642	457,353		3,379,995
 Total Capital Assets	 \$ 23,348,896	 \$ 794,404	 \$ 75,400	 \$24,067,900

HANCOCK COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings	\$ 10,000	10-40
Other Equipment	\$ 5,000	5-10
Vehicles	\$ 7,500	5-10
Infrastructure - Roads	\$ 10,000	10-25
Infrastructure - Bridges	\$ 5,000	10-50

Note 2. Prior Period Adjustment

Due to an error in prior year additions, the beginning capital asset balance as of June 30, 2014 increased by \$100,000. The prior year balance was \$23,248,896 and the restated balance is \$23,348,896.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jack B. McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Hancock County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated October 28, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Hancock County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Hancock County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hancock County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-003, 2014-005, and 2014-006 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-004 to be a significant deficiency.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hancock County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-006, and 2014-007.

County Judge/Executive's Responses to Findings

The Hancock County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line.

Mike Harmon
Auditor of Public Accounts

October 28, 2015

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 Internal Controls Over Disbursements/Credit Card Transactions Should Be Strengthened

The following disbursements/credit card transaction deficiencies were noted:

- Four credit card transactions did not have adequate supporting documentation (itemized invoices).
- One credit card transaction did not have any supporting documentation.
- Four claims were not approved by Fiscal Court prior to payment.
- Three invoices were not paid within 30 working days.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained, including any additional supporting documentation and agreed to the corresponding purchase order and reports. KRS 65.140 states, in part, "...all bills for goods or services shall be paid within thirty (30) working days of receipt of the vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor."

These deficiencies over disbursements and credit card transactions occurred because of the Fiscal Court's lack of internal controls and oversight. Also, the Fiscal Court Clerk did not record the complete claims list as part of the Fiscal Court Orders.

Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the County. Also, by not paying invoices within 30 days the Fiscal Court could be assessed penalties.

We recommend that the County develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

County Judge/Executive Jack B. McCaslin's Response: We have tried to put in adequate internal procedures and will make the necessary changes to insure this in the future.

HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Fiscal Court Should Advertise And Properly Award Bids And Ensure They Are Paying The Correct Amount Per Bid Award

The following bidding deficiencies were noted:

- Bids were not obtained for certain specific tires or diesel exhaust fluid.
- Bid was awarded for a petroleum product at \$319.55 per drum, but the Fiscal Court was billed at \$379.50 per drum.
- Bid was awarded for tires at \$313.60; however, the tires were purchased for \$338.97.
- The fuel bid had an exception to bid specification, which stated the prices will be from the daily Owensboro rack on respective day of delivery. This also included the markup based upon the gallons purchased. However, the vendor did not provide the Fiscal Court with documentation of the prices from the daily Owensboro rack; therefore, the Fiscal Court was unable to determine if they were being billed the correct amount for fuel purchases.
- Fiscal Court purchased a tractor and mower based on the State Contract Price, but they did not maintain the appropriate documentation to support what the State Contract Price should have been. Therefore, they cannot ensure that these items were purchased for the correct amount.

KRS 424.260(1) states, “Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” Good internal controls dictate that the Fiscal Court ensure that they are paying the awarded bid prices.

The Judge/Executive explained that their bid forms were old and needed to be updated to include these newer items and it was just an oversight that they didn’t have the appropriate documentation on the State Contract Price. He also stated that they didn’t realize they should be receiving the daily Owensboro rack prices on fuel.

The Fiscal Court’s failure to properly bid the items mentioned above caused the county to be in violation of KRS 424.260. Lack of controls also resulted in the Fiscal Court paying more than the bid award for some petroleum products and the uncertainty that the correct amount was being billed for fuel purchases.

We recommend the Fiscal Court comply with KRS 424.260 and properly advertise and award bids for all purchases over twenty thousand dollars or purchase items from State Contract vendors and maintain the proper documentation of the State Contract price. Also, Fiscal Court should implement controls to ensure that they are paying the correct amount per bid awards.

County Judge/Executive Jack B. McCaslin’s Response: We will definitely do our best to correct this matter in the future.

HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Fiscal Court Has A Lack Of Segregation Of Duties Over Cash, Receipts, And Payroll

The County Treasurer's Assistant prepares deposits and posts transactions into the accounting system. The County Treasurer prepares reports for submission to the Department for Local Government, makes cash transfers between funds, and performs the bank reconciliations for all bank accounts. The County Treasurer also processes all payroll transactions and prepares all payroll related reports. There were no documented compensating controls to offset the lack of segregation of duties to reduce the deficiency to less than significant level.

Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

Due to the small size and budget restrictions, the Fiscal Court has limited options for establishing segregation of duties.

Lack of segregation of duties could result in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to irregularities that go undetected.

We recommend that the County divide the responsibilities for cash, receipts, and payroll among the County Treasurer and other employees of the County in order to achieve an appropriate level of segregation of duties or implement compensating controls over these areas.

County Judge/Executive Jack B. McCaslin's Response: The Hancock County Fiscal Court and the County Treasurer continues to try to improve internal controls.

2014-004 The Payroll Revolving Account Should Be Properly Reconciled And Zero Out After Considering All Payroll Liabilities

The County Treasurer reconciles the payroll account each month but is unable to reconcile it to zero after considering all payroll liabilities. There were no internal controls in place to determine the payroll account balance. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance.

Since the payroll account has not been reconciled to zero or to a minimal carrying balance, there could be monies in the payroll account that belong to other funds of the Fiscal Court. The lack of controls over payroll could cause a misappropriation of county assets. We recommend the payroll account be properly reconciled and the Fiscal Court establish internal controls to determine that the account is being properly handled.

County Judge/Executive Jack B. McCaslin's Response: The County Treasurer will begin to take the necessary measure to correct this.

HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-005 The EOC Director Should Reconcile Monthly Ambulance Runs Billed By The Service Provider

The Hancock County Fiscal Court has contracted with a service provider to bill for the Hancock County Ambulance Service. Ambulance runs are entered into an iPad system and submitted to the service provider after runs are made. The service provider then prepares a bill and either bills the individual or their insurance provider accordingly. Payments are then remitted directly to the service provider, or in some instances payments are made electronically into the Fiscal Court's bank account. When funds are received by the service provider, they make deposits into the Fiscal Court's bank account. The Emergency Operations Center (EOC) Director prepares a monthly report that contains all ambulance runs. The service provider also generates a monthly report containing all the ambulance runs for the Hancock County Ambulance Service. However, there is no documented reconciliation between the ambulance runs billed by the service provider and ambulance runs per the EOC Director. Good internal controls dictate that these should be reconciled to ensure that all ambulance runs are being bill correctly on behalf of the Hancock County Ambulance Service.

Ambulance charges are overseen by persons other than the financial staff of the County. By not reconciling ambulance runs, the Fiscal Court does not know if the correct amount of ambulance runs has been billed by the service provider. We recommend that ambulance runs billed by the service provider be reconciled to the Hancock County Ambulance Service's records and the reconciliation be documented.

County Judge/Executive Jack B. McCaslin's Response: The Hancock County Fiscal Court will inform the EMA/EOC Director and have him begin this in the future.

2014-006 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts

The Hancock County Fiscal Court did not issue receipts for monies received at Archives prior to September 2015. Daily check out sheets including receipts numbers were also not being utilized by all offsite locations (Archives and Animal Shelter). Additionally, the animal shelter issued receipts out of sequential order for the test day June 3, 2014 and there was no documented explanation as to why receipts were issued out of sequential order. KRS 64.840(2) requires all governmental officials handling public funds to issue a three part receipt with "One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit." Also, good internal controls dictate that the Fiscal Court should monitor collections of all decentralized receipts.

Decentralized locations are managed by persons other than the financial staff of the County. The Fiscal Court cannot verify the amount of funds collected each day, since they are not issuing receipts or keeping other documentation to support the collection of all funds received. By not requiring a receipt for each payment or that these receipts should be issued in sequential order, the opportunity for theft of funds or fraudulent recording is increased.

We recommend that the Fiscal Court require receipts as per KRS 64.840(2) for all offsite collections and daily check out sheets be used so that the numerical sequence of receipts can be accounted for and properly maintained.

County Judge/Executive Jack B. McCaslin's Response: The County Judge and County Treasurer will work on implementing more adequate controls for this.

HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS
For the Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-007 Overtime Was Not Properly Paid To An Emergency Management Technician

An Emergency Management Technician (EMT) worked three 24 hour shifts in a pay period and was not compensated at time and one-half for the hours worked over 40 for that week. The County thought that since they had gone to a Hard Station in 2008 they were not required to pay EMT's time and one-half compensation for hours worked over 40 in a week. KRS 337.285(1) states, "No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." EMT's have been underpaid for hours worked over 40 in a week. We recommend that EMT's be paid time and one-half for all hours worked over 40 in a week.

County Judge/Executive Jack B. McCaslin's Response: The County Judge, County Treasurer, County Attorney, and EMA Director have already taken the necessary steps to correct this.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HANCOCK COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

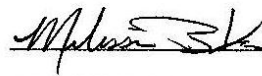
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Hancock County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

